

**KEYSTONE
AREA EDUCATION AGENCY 1**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2013

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KEYSTONE AREA EDUCATION AGENCY 1

OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
Board of Directors		
Gary Gassett	President	2013
Tina Pech	Vice President	2015
Francis Peterson	Member	2015
Walter Pregler	Member	2015
James Moeller	Member	2015
Craig Beytien	Member	2015
Bill Withers	Member	2013
Sandra Gassman	Member	2013
Galen Reinsmoen	Member	2013
Agency		
Patrick Heiderscheit	Administrator	
Candace Brockmeyer	Board Secretary	
Audie Baumgartner	Business Manager and Treasurer	Indefinite



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

Independent Auditor's Report

To the Board of Directors of
Keystone Area Education Agency 1:
Elkader, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the Agency's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Agency's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 10 and 27 through 29 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Keystone Area Education Agency 1's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 4, 2013 on our consideration of Keystone Area Education Agency 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Keystone Area Education Agency 1's internal control over financial reporting and compliance.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 4, 2013

KEYSTONE AREA EDUCATION AGENCY 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

Keystone Area Education Agency 1 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the Agency's financial statements that follow.

2013 FINANCIAL HIGHLIGHTS

General Fund revenues in 2013 (FY13) were \$22,191,663 while General Fund expenditures for FY13 were \$22,942,122. Financing uses for FY13 were \$1,850,383. This resulted in a decrease in the Agency's General Fund balance from \$5,419,191 in FY12 to \$2,818,349 in FY13, a 48% decrease from the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the agency's financial activities.
- The Government-wide Financial Statements consist of a statement of Net Position and a Statement of Activities. These provide information about the activities of Keystone Area Education Agency as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- Supplementary Information provides detailed information about the non-major funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the Agency.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net position and how it has changed. Net position — the difference between the agency's assets and liabilities — are one way to measure the Agency's financial health or position. Over time, increases or decreases in the Agency's net position are an indicator of whether financial position is improving or deteriorating, respectively. To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the government-wide financial statements, the Agency's activities consist of one category:

- *Governmental activities:* The Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services, and administration. Local school districts, federal and state aid finances most of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds – not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenues, such as federal grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REPORTING THE AGENCY'S FINANCIAL ACTIVITIES (Continued)

Fund Financial Statements (continued)

The Agency has one kind of fund:

- Governmental funds account for all of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Fund, and 3) the Debt Service Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of financial position. Keystone Area Education Agency's net position at the end of fiscal year 2013 totaled approximately \$5.2 million compared to approximately \$6.5 million at the end of fiscal year 2012. The analysis that follows focuses on the net position and changes in net position.

	Condensed Statement of Net Position		
	Total		Percentage
	Governmental Activities		Change (%)
	2012	2013	2012-2013
Current and other assets	\$ 8,426,107	\$ 5,589,820	(33.7)%
Capital assets	3,513,892	3,388,070	(3.6)
Total assets	11,939,999	8,977,890	(24.8)
Long-term obligations	2,378,124	842,790	(64.6)
Other liabilities	2,988,753	2,888,086	(3.4)
Total liabilities	5,366,877	3,730,876	(30.5)
Net position:			
Invested in capital assets, net of related debt	1,353,489	3,388,070	150.3
Restricted	383,430	-	(100.0)
Unrestricted	4,836,203	1,858,944	(61.6)
Total net position	\$ 6,573,122	\$ 5,247,014	(20.2)%

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis details the changes in net position resulting from the Agency's activities.

	Changes in Net Position		
	Total		Percentage
	Governmental Activities		Change (%)
	2012	2013	2012-2013
Revenues:			
Program revenues:			
Charges for service	\$ 1,503,982	\$ 1,307,776	(13.0)%
Operating grants and contributions	10,917,436	9,897,178	(9.3)
General revenues:			
Property taxes	6,116,735	6,125,865	0.1
State foundation aid	5,027,871	5,096,229	1.4
Unrestricted investment earnings	59,453	34,159	(42.5)
Total revenues	23,625,477	22,461,207	(4.9)
Program expenses:			
Instruction	281,771	237,586	(15.7)
Student support services	10,581,824	11,306,629	6.8
Instructional staff support services	6,647,123	6,485,648	(2.4)
General administration	3,140,823	3,252,859	3.6
Business administration	1,337,348	1,414,629	5.8
Plant operations and maintenance	766,803	970,021	26.5
Central and other support services	232	117	(49.6)
Community service operations	45,916	46,416	1.1
Interest on long-term debt	100,672	73,410	(27.1)
Total expenses	22,902,512	23,787,315	3.9
Increase (decrease) in net position	722,965	(1,326,108)	(283.4)
Net position beginning of year	5,850,157	6,573,122	12.4
Net position end of year	\$ 6,573,122	\$ 5,247,014	(20.2)%

Operating grants and contributions from local, state, and federal sources account for 44% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 76% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$22,461,207 and expenses were \$23,787,315.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL FUND ANALYSIS

As previously noted, Keystone Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported a combined fund balance that decreased from \$5,802,621 to \$2,818,349.

Governmental Fund Highlights

FY '13 for Keystone Area Education Agency was highlighted by the following management strategies:

- elimination of long-term debt with a lump sum payment of \$1.8 million in addition to the typical annual payment of \$400,000
- reduction in the special education ending balance in a purposeful manner in an attempt to comply with a renewed SBRC emphasis on the statutory maximum of 10%
- continuation of a conservative master staffing plan in an attempt to ensure appropriate balance among and between revenue, expenditures, and member district needs

Economic Factors and Next Year's Budget

FY '14 for Keystone Area Education Agency promises to be impacted by the following realities:

- continuation of meager state resources (the state AEA system was granted 2% state supplemental aid, but denied the 2% additional one-time funding afforded to school districts)
- sequestration of ~\$360,000 federal special education dollars
- restoration of ~\$360,000 state special education dollars, which leaves the special education division short ~\$1.2 million generated by the traditional funding formula
- escalation of duties for special education to support the state's effort to close the achievement gap for students with individualized education programs (IEPs)
- escalation of duties for instructional services to support the state's response to intervention (RtI) system and the new teacher leadership and compensation (TLC) program
- evolution of position descriptions in media materials to ensure preservation of historical two-day per week van delivery and the 30% commitment of revenue for new materials.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BUDGETARY HIGHLIGHTS

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and State Board review, the State Board either approves the budget or returns it with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2013, the Agency had invested approximately \$3.39 million, net of accumulated depreciation/amortization, in a broad range of capital assets, including land, building, computers, Media lending library and audio-visual equipment. Keystone Area Education Agency had depreciation expense of \$430,825 in FY13 and total accumulated depreciation of approximately \$6.71 million on June 30, 2013. More detailed information about capital assets is available in Note 3 to the financial statements.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office of Keystone Area Education Agency, 1400 2nd St N.W., Elkader, Iowa, 52043-9564.

BASIC FINANCIAL STATEMENTS

KEYSTONE AREA EDUCATION AGENCY 1

KEYSTONE AREA EDUCATION AGENCY 1**Exhibit A****STATEMENT OF NET POSITION****Year Ended June 30, 2013**

	Total Governmental Activities
Assets	
Cash	\$ 3,743,904
Receivables:	
Accounts	139,065
Due from other governments	1,667,717
Inventories	23,606
Prepaid expenses	15,528
Capital assets (net of accumulated depreciation)	3,388,070
Total assets	8,977,890
Liabilities	
Accounts payable	487,379
Salaries and benefits payable	2,183,418
Deferred revenue:	
Federal	5,717
Miscellaneous	94,957
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences	72,615
Early retirement	44,000
Portion due or payable after one year:	
Compensated absences	180,059
Early retirement	176,000
Net OPEB liability	486,731
Total liabilities	3,730,876
Net Position	
Invested in capital assets, net of related debt	3,388,070
Unrestricted	1,858,944
Total net position	5,247,014
Total liabilities and net position	\$ 8,977,890

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1**STATEMENT OF ACTIVITIES****Year Ended June 30, 2013**

	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Functions/Programs:			
Governmental Activities:			
Instruction	\$ 237,586	\$ 2,187	\$ 232,767
Student support services	11,306,629	377,963	8,472,942
Instructional staff support services	6,485,648	503,587	1,103,446
General administration	3,252,859	-	-
Business administration	1,414,629	424,039	-
Plant operations and maintenance	970,021	-	-
Central and other support services	117	-	-
Community service operations	46,416	-	88,023
Interest on long-term debt	73,410	-	-
Total	\$ 23,787,315	\$ 1,307,776	\$ 9,897,178

General Revenues:

Property tax levied for general purposes

State foundation aid

Unrestricted investment earnings

Change in net position

Net position beginning of year

Net position end of year

See Notes to Financial Statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Position	
Governmental Activities	Total
\$ (2,632)	\$ (2,632)
(2,455,724)	(2,455,724)
(4,878,615)	(4,878,615)
(3,252,859)	(3,252,859)
(990,590)	(990,590)
(970,021)	(970,021)
(117)	(117)
41,607	41,607
(73,410)	(73,410)
(12,582,361)	(12,582,361)
6,125,865	6,125,865
5,096,229	5,096,229
34,159	34,159
(1,326,108)	(1,326,108)
6,573,122	6,573,122
\$ 5,247,014	\$ 5,247,014

KEYSTONE AREA EDUCATION AGENCY 1
Exhibit C
BALANCE SHEET - GOVERNMENTAL FUNDS
Year Ended June 30, 2013

		Nonmajor Governmental		
		General	Funds	Total
Assets				
Cash		\$ 3,726,758	\$ 17,146	\$ 3,743,904
Receivables:				
Accounts		139,065	-	139,065
Due from other governments		1,656,903	10,814	1,667,717
Inventories		23,606	-	23,606
Prepaid expenditures		15,528	-	15,528
Total assets		\$ 5,561,860	\$ 27,960	\$ 5,589,820
Liabilities and Fund Balances				
Accounts payable		\$ 486,186	\$ 1,193	\$ 487,379
Salaries and benefits payable		2,156,651	26,767	2,183,418
Deferred revenue:				
Federal		5,717	-	5,717
Miscellaneous		94,957	-	94,957
Total liabilities		2,743,511	27,960	2,771,471
Fund balances:				
Nonspendable:				
Inventory		23,606	-	23,606
Prepaid items		15,528	-	15,528
Restricted for:				
Media materials		924	-	924
Educator quality		106,295	-	106,295
Assigned for:				
Specific special purposes		44,000	-	44,000
Unassigned:				
Unassigned		2,627,996	-	2,627,996
Total fund balances		2,818,349	-	2,818,349
Total liabilities and fund balances		\$ 5,561,860	\$ 27,960	\$ 5,589,820

See Notes to Financial Statements.

RECONCILIATION OF THE BALANCE SHEET--

GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

Year Ended June 30, 2013

Total governmental fund balances (page 13)	\$ 2,818,349
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*Amounts reported for governmental activities in the Statement of Net Position
are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$10,094,368 and the accumulated depreciation is \$6,706,298.

3,388,070

Long-term liabilities, including capital leases, compensated absences and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported in the funds.

(959,405)

Net position of governmental activities (page 11)

\$ 5,247,014

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES -- GOVERNMENTAL FUNDS**

Year Ended June 30, 2013

	Nonmajor Governmental		
	General	Funds	Total
Revenues:			
Local sources	\$ 7,469,486	\$ -	\$ 7,469,486
State sources	6,332,380	269,544	6,601,924
Federal sources	8,389,797	-	8,389,797
Total revenues	22,191,663	269,544	22,461,207
Expenditures:			
Current:			
Instruction	2,186	232,768	234,954
Student support services	11,121,209	-	11,121,209
Instructional staff support services	6,451,612	1,595	6,453,207
General administration	3,114,338	25,018	3,139,356
Business administration	1,400,393	587	1,400,980
Plant operations and maintenance	806,369	9,576	815,945
Central and other support services	117	-	117
Community service operations	45,898	-	45,898
Debt service	-	2,233,813	2,233,813
Total expenditures	22,942,122	2,503,357	25,445,479
(Deficiency) of revenues (under) expenditures	(750,459)	(2,233,813)	(2,984,272)
Other financing sources (uses):			
Transfers in	-	1,850,383	1,850,383
Transfers out	(1,850,383)	-	(1,850,383)
Total financing sources (uses)	(1,850,383)	1,850,383	-
Changes in fund balances	(2,600,842)	(383,430)	(2,984,272)
Fund balances, beginning of year	5,419,191	383,430	5,802,621
Fund balances, end of year	\$ 2,818,349	\$ -	\$ 2,818,349

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2013**

Net change in fund balances - total governmental funds (page 15) **\$ (2,984,272)**

*Amounts reported for governmental activities in the
statement of activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay in the current year as follows:

Expenditures for capital assets	\$ 330,713	
Depreciation expense	<u>(430,825)</u>	(100,112)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the loss is not recognized. (25,710)

Repayment of long-term debt principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 2,160,403

Compensated absence, early retirement, and other postemployment benefit expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds. (376,417)

Change in net position of governmental activities (page 12) **\$ (1,326,108)**

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Keystone Area Education Agency 1 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 24 school districts and private schools in an eight-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U. S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity:

For financial reporting purposes, Keystone Area Education Agency 1 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. The Agency has no component units that meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation:

Government-wide financial statements: The Statement of Net Position (previously referred to as net assets) and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued):

Government-wide financial statements (continued): The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements: Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental fund:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

C. Measurement Focus and Basis of Accounting:

The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current year or soon enough thereafter to pay liabilities of the current year. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued):

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Agency's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds that can be paid using either restricted or unrestricted resources, the Agency's policy is to pay the expenditure from restricted fund balance and then from, less-restrictive classifications – committed, assigned, and then unassigned fund balances.

D. Assets, Liabilities and Fund Equity:

Cash: Cash includes amounts in demand deposits, money market funds and certificates of deposit.

Inventories: Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital assets: Capital assets, which include property, furniture and equipment and intangibles, are reported in the applicable governmental or business type activities column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Land	No lower limit
Building	\$ 50,000
Improvements other than buildings	5,000
Furniture and equipment	1,000
Library books	Aggregated annual purchases

Capital assets of the Agency are depreciated/amortized using the straight-line method of depreciation/-amortization over the following useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	25
Improvements other than buildings	20
Furniture and equipment	5-20
Library books	5

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity (continued):

Salaries and benefits payable: Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred revenue: Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year-end.

Compensated absences: Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Position representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term liabilities: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Position.

Fund balances: In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable fund balances are amounts that cannot be spent because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted fund balances are amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are amounts that can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Directors through resolution approved prior to year end. Committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same action it employed to commit these amounts.

Unassigned fund balances are amounts not included in preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash, Cash Equivalents and Pooled Investments

The Agency's deposits in banks at June 30, 2013 were entirely covered by Federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Agency.

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 343,373	\$ -	\$ -	\$ 343,373
Total capital assets not being depreciated	343,373	-	-	343,373
Capital assets being depreciated:				
Buildings	5,400,659	-	-	5,400,659
Improvements other than buildings	93,000	-	-	93,000
Furniture and equipment	941,992	127,149	77,570	991,571
Library books	3,241,724	203,564	179,523	3,265,765
Total capital assets being depreciated	9,677,375	330,713	257,093	9,750,995
Less accumulated depreciation for:				
Buildings	3,287,992	165,359	-	3,453,351
Improvements other than buildings	71,145	4,185	-	75,330
Furniture and equipment	612,578	87,303	69,813	630,068
Library books and films	2,535,141	173,978	161,570	2,547,549
	6,506,856	430,825	231,383	6,706,298
Total capital asset being depreciated, net	3,170,519	(100,112)	25,710	3,044,697
Governmental activities capital assets, net	\$ 3,513,892	\$ (100,112)	\$ 25,710	\$ 3,388,070

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:	
Student support services	\$ 2,473
Instructional staff support services	179,404
Business administration	59,547
Plant operations and maintenance	189,401
Total governmental activities depreciation expense	\$ 430,825

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital leases	\$ 2,160,403	\$ -	\$ 2,160,403	\$ -	\$ -
Early retirement obligation	-	220,000	-	220,000	44,000
Compensated absences	231,529	76,412	55,267	252,674	72,615
Net OPEB liability	351,459	135,272	-	486,731	-
	<u>\$ 2,743,391</u>	<u>\$ 431,684</u>	<u>\$ 2,215,670</u>	<u>\$ 959,405</u>	<u>\$ 116,615</u>

Capital lease: The Agency was obligated under a lease accounted for as a capital lease. The lease was paid off during the year ended June 30, 2013 and required interest at an interest rate of 4.25%. Payments under the agreement for the year ended June 30, 2013, including interest of \$73,410, totaled \$2,233,813.

Early retirement obligation: The Agency offered a voluntary early retirement plan to their employees during the year ended June 30, 2013. Eligible employees must have completed at least eight years of full-time service to the Agency (going forward, fifteen years if start date after July 1, 2012) and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Directors. Early retirement benefits equal \$20,000 per retiree and are distributed over five years at \$4,000 per year. The Agency retains the right to expedite payment of the benefit if its fund balances allow. The Agency shall pay the benefit annually in January, May or September with the month of payment being the one that most closely follows the month of the resigning/retiring employee's last day of employment with the Agency. At June 30, 2013, the Agency has \$220,000 due as an obligation for early retirement liability for 11 employees that elected early retirement during the year. Actual early retirement expenditures for the year ended June 30, 2013 totaled \$0.

NOTES TO FINANCIAL STATEMENTS

Note 5. Operating Leases

The Agency has leases for copiers and other related equipment that have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire on dates ranging from August 2013 through June 2020.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2013.

Year Ending June 30,	Amount
2014	\$ 42,059
2015	31,283
2016	29,183
2017	15,492
2018	1,800
Thereafter	3,600
	<u>\$ 123,417</u>

Total rental expenditures for the year ended June 30, 2013 for all operating leases, except those with terms of a month or less that were not renewed, was \$70,091.

Note 6. Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary and the Agency is required to contribute 8.67% of annual covered salary. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 was \$1,162,248, \$1,087,473 and \$932,208, respectively, equal to the required contributions for each year.

Note 7. Other Postemployment Benefits (OPEB)

Plan description: The Agency operates a single-employer retiree benefit plan that provides medical and prescription drug benefits for employees, retirees and their spouses. There are 215 active and 25 retired members in the plan. Participants must be age 55 or older at retirement.

The medical and prescription drug benefits are provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (OPEB) (Continued)

Funding policy: The contribution requirements of plan members are established and may be amended by the Agency. The Agency currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB cost and net OPEB obligation: The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution	\$ 166,676
Interest on net OPEB obligation	9,311
Other adjustments to ARC	(11,686)
Annual OPEB cost	164,301
Contributions made	(29,029)
Increase in net OPEB obligation	135,272
Net OPEB obligation beginning of year	351,459
Net OPEB obligation end of year	<u>\$ 486,731</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2012. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the Agency contributed \$1,514,735 to the plan. Plan members eligible for benefits contributed \$318,554 to the plan.

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2013 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
June 30, 2013	\$ 164,301	33.76%	\$ 486,731
June 30, 2012	124,362	35.38	351,459
June 30, 2011	221,915	84.98	261,127
June 30, 2010	11,028	12.19	90,497
June 30, 2009	79,469	100.00	79,469

Funded status and funding progress: As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$749 thousand, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$749 thousand. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$13,198,000, and the ratio of the UAAL to covered payroll was 5.68%. As of June 30, 2013, there were no trust fund assets.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (OPEB) (Continued)

Actuarial methods and assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2012 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.50% discount rate based on the Agency's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial report as of June 30, 2011 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2011.

Note 8. Risk Management

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

KEYSTONE AREA EDUCATION AGENCY 1

REQUIRED SUPPLEMENTARY INFORMATION

KEYSTONE AREA EDUCATION AGENCY 1

SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES – BUDGET AND ACTUAL ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND Year Ended June 30, 2013

	Total Governmental Fund Types Actual	Budget		Final to Actual Variance - Favorable (Unfavorable)
		Original	Final	
Revenues:				
Local sources	\$ 7,469,486	\$ 7,609,125	\$ 7,382,719	\$ 86,767
State sources	6,601,924	7,971,807	6,563,595	38,329
Federal sources	8,389,797	8,206,393	8,490,699	(100,902)
Total revenues	22,461,207	23,787,325	22,437,013	24,194
Expenditures/Expenses:				
Current:				
Instruction	234,954	293,054	241,438	6,484
Student support services	11,121,209	11,393,900	11,227,284	106,075
Instructional staff support services	6,453,207	6,880,728	6,759,042	305,835
General administration	3,139,356	3,422,372	3,187,923	48,567
Business administration	1,400,980	1,459,857	1,505,119	104,139
Plant operations and maintenance	815,945	811,996	939,497	123,552
Central and other support services	117	2,200	1,000	883
Community service operations	45,898	63,202	57,395	11,497
Debt service	2,233,813	396,357	2,233,813	-
Total expenditures/ expenses	25,445,479	24,723,666	26,152,511	707,032
Excess (deficiency) of revenues over (under) expenditures/ expenses	(2,984,272)	(936,341)	(3,715,498)	731,226
Balance, beginning of year	5,802,621	4,097,910	5,802,621	-
Balance, end of year	\$ 2,818,349	\$ 3,161,569	\$ 2,087,123	\$ 731,226

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1
June 30, 2013

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with U. S. generally accepted accounting principles for all funds except Agency Funds. Although the budget document presents function expenditures/expenses by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

For the year ended June 30, 2013, the Agency's expenditures/expenses did not exceed the approved budget.

KEYSTONE AREA EDUCATION AGENCY 1**Schedule of Funding Progress for the Retiree Health Plan (In Thousands)****Required Supplementary Information**

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2009	7/1/2008	\$ -	\$ 1,023	\$ 1,023	0.00%	\$ 13,459	7.60%
2010	7/1/2008	-	1,023	1,023	0.00	14,047	7.28
2011	7/1/2010	-	1,039	1,039	0.00	13,533	7.68
2012	7/1/2010	-	1,039	1,039	0.00	13,635	7.62
2013	7/1/2012	-	749	749	0.00	13,198	5.68

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

KEYSTONE AREA EDUCATION AGENCY 1

Schedule 1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2013

	<div>Special Revenue</div> <div>Juvenile Home</div>			Debt Service		Total
Assets						
Current Assets:						
Cash	\$	17,146	\$	-	\$	17,146
Intergovernmental receivables		10,814		-		10,814
Total assets	\$	27,960	\$	-	\$	27,960
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$	1,193	\$	-	\$	1,193
Salaries and benefits payable		26,767		-		26,767
Total liabilities		27,960		-		27,960
Fund balances:						
Assigned/restricted for specific special purposes		-		-		-
Total liabilities and fund balances	\$	27,960	\$	-	\$	27,960

See Accompanying Independent Auditor's Report.

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2013**

	Special Revenue Juvenile Home	Debt Service	Total
Revenues:			
State sources	\$ 269,544	\$ -	\$ 269,544
Total revenues	269,544	-	269,544
Expenditures:			
Current:			
Instruction	232,768	-	232,768
Instructional staff support services	1,595	-	1,595
General administration	25,018	-	25,018
Business administration	587	-	587
Plant operations and maintenance	9,576	-	9,576
Debt service	-	2,233,813	2,233,813
Total expenditures	269,544	2,233,813	2,503,357
(Deficiency) of revenues (under) expenditures	-	(2,233,813)	(2,233,813)
Other financing sources:			
Transfers in	-	1,850,383	1,850,383
	-	1,850,383	1,850,383
(Deficiencies) of revenues and other financing sources (under) expenditures	-	(383,430)	(383,430)
Fund balances beginning of year	-	383,430	383,430
Fund balances end of year	\$ -	\$ -	\$ -

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1**SCHEDULE OF REVENUES BY SOURCE AND
EXPENDITURES BY FUNCTION****ALL GOVERNMENTAL FUND TYPES****Year Ended June 30, 2013**

	2013	2012	2011	2010
Revenues:				
Local	\$ 7,469,486	\$ 7,680,170	\$ 7,505,889	\$ 7,418,063
State	6,601,924	6,471,382	7,844,686	6,889,970
Federal	8,389,797	9,473,925	9,186,771	14,253,568
Total	\$ 22,461,207	\$ 23,625,477	\$ 24,537,346	\$ 28,561,601
Expenditures:				
Instruction	\$ 234,954	\$ 280,407	\$ 254,436	\$ 166,251
Student support services	11,121,209	10,532,497	10,264,301	14,506,428
Instructional staff support services	6,453,207	6,613,163	6,704,588	7,067,820
General administration	3,139,356	3,143,055	3,007,220	2,999,018
Business administration	1,400,980	1,280,809	1,447,176	1,574,380
Plant operations and maintenance	815,945	659,630	663,046	745,214
Central and other support services	117	232	847	586
Community service operations	45,898	45,534	41,880	94,240
Facilities acquisition and construction	-	-	-	-
Debt service	2,233,813	460,672	460,733	444,654
Total expenditures	\$ 25,445,479	\$ 23,015,999	\$ 22,844,227	\$ 27,598,591

See accompanying Independent Auditor's Report.

Schedule 3

Modified Accrual Basis

Years Ended June 30,

2009	2008	2007	2006	2005	2004
\$ 7,176,257	\$ 7,027,608	\$ 6,699,556	\$ 6,552,694	\$ 6,402,127	\$ 6,135,625
7,639,313	6,864,814	5,721,745	5,175,879	4,923,883	4,891,443
9,334,486	8,366,891	8,719,971	8,870,515	8,502,948	7,665,784
\$ 24,150,056	\$ 22,259,313	\$ 21,141,272	\$ 20,599,088	\$ 19,828,958	\$ 18,692,852
\$ 254,911	\$ 638,042	\$ 377,243	\$ 294,653	\$ 121,543	\$ 117,248
11,588,519	9,783,157	9,337,230	9,438,835	9,322,347	8,422,985
6,575,140	5,934,985	5,720,022	5,699,278	5,402,081	5,624,220
2,969,745	2,985,714	2,872,640	3,005,570	2,979,545	2,691,044
1,286,058	1,383,903	1,294,592	1,192,424	758,353	571,982
757,033	726,456	725,009	671,528	630,566	768,618
199	625	576	2,421	192,599	296,276
58,770	83,388	87,292	85,828	-	-
-	-	-	127,727	-	-
432,385	413,950	462,950	453,513	361,701	345,683
\$ 23,922,760	\$ 21,950,220	\$ 20,877,554	\$ 20,971,777	\$ 19,768,735	\$ 18,838,056

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect:			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Special Education Cluster (IDEA):			
Special Education - Grants to States:	84.027		
Parent-Educator Connection		2K74-02	\$ 88,023
IEP Work Group		029713	989
IDEA Part B		121301	5,585,245
IDEA Part B - LEA Flow-Through		3KB2-01	1,708,682
			<u>7,382,939</u>
Special Education - Preschool Grants:	84.173		
IDEA Part B Section 619		12619-01	239,023
Teach Town Expansion Project		003513	59,434
QPPS Verification Site Visits		018112	6,526
QPPS Verification Site Visits		015213	1,600
QPPS Verification Site Visits		019213	5,500
			<u>312,083</u>
			<u>7,695,022</u>
Special Education - Grants for Infants and Families:			
IDEA - Part C	84.181	C12-01	<u>213,368</u>
Special Education - Improvement Grants for Children:			
Secondary Professional Development Grant	84.323	028813	<u>64,734</u>
Carl D. Perkins Career and Technical Education:			
Vocational Education - Basic Grants to States	84.048A	G30101	<u>197,543</u>
Department of Education Grants:			
Title III - English Language Acquisition	84.365	13ELA-01	67,917
Iowa Safe & Supportive Schools, Learning Supports	84.184	003813	<u>94,580</u>
			<u>162,497</u>

(Continued on next page)

KEYSTONE AREA EDUCATION AGENCY 1

Schedule 4
(Continued)SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect (Continued):			
U. S. Department of Education (Continued):			
Passed-through an Iowa LEA:			
Title II, Part A - 2011-2012	84.367	Project 4643	2,714
Title II, Part A - 2012-2013	84.367	Project 4643	15,824
			<u>18,538</u>
Passed-through an AEA:			
Safe and Drug Free Schools - 2007-2008	84.186	Project 4591	<u>275</u>
U. S. Department of Human Services, Medicaid:			
Medical Assistance Program:			
Medicaid Direct Service Reimbursement:			
Medicaid Direct Services, Part B	93.778		13,423
Medicaid Direct Services, Part C	93.778		24,397
			<u>37,820</u>
			<u>\$ 8,389,797</u>

Basis of Presentation: The Schedule of Expenditures of Federal Awards includes the federal grant activity of Keystone Area Education Agency 1 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Keystone Area Education Agency 1
Elkader, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Keystone Area Education Agency 1's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Keystone Area Education Agency 1's internal control. Accordingly, we do not express an opinion on the effectiveness of Keystone Area Education Agency 1's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keystone Area Education Agency 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about Keystone Area Education Agency 1's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Keystone Area Education Agency 1. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Keystone Area Education Agency 1's Responses to Findings

Keystone Area Education Agency 1's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Keystone Area Education Agency 1's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 4, 2013

KEYSTONE AREA EDUCATION AGENCY 1

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM,
ON INTERNAL CONTROL OVER COMPLIANCE AND
ON THE SCHEUDLE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133**



SCHNURR & COMPANY, LLP
Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM,
ON INTERNAL CONTROL OVER COMPLIANCE AND
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133**

Board of Directors of
Keystone Area Education Agency 1
Elkader, Iowa

Report on Compliance for Each Major Federal Program

We have audited Keystone Area Education Agency 1's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. Keystone Area Education Agency 1's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Keystone Area Education Agency 1's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Keystone Area Education Agency 1's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Keystone Area Education Agency 1's compliance.

Opinion on Each Major Federal Program

In our opinion, Keystone Area Education Agency 1 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of Keystone Area Education Agency 1 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Keystone Area Education Agency 1's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Keystone Area Education Agency 1's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Keystone Area Education Agency 1's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Keystone Area Education Agency 1's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 4, 2013

KEYSTONE AREA EDUCATION AGENCY 1

Schedule of Findings and Questioned Costs Year Ended June 30, 2013

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed.
- (c) The audit did not disclose any noncompliance that is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
 - Special Education Cluster (IDEA):
 - CFDA Number 84.027 – Special Education – Grants to States
 - CFDA Number 84.173 – Special Education – Preschool Grants
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keystone Area Education Agency 1 qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

No matters were noted.

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

No matters were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-13 Certified Budget: Expenditures during the year ended June 30, 2013 did not exceed the amounts budgeted.
- IV-B-13 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-13 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted
- IV-D-13 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.
- IV-E-13 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-F-13 Board Minutes: No transactions requiring Board approval were noted which had not been approved.
- IV-G-13 Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Agency's investment policy were noted.
- IV-H-13 Certified Annual Report: The Certified Annual Report (CAR) was certified timely to the Iowa Department of Education.
- IV-I-13 Categorical Funding: No instances were noted of categorical funding used to supplant rather than supplement other funds.

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2013

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 4, 2013